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# A Strange Thing Happened … with the development of a New Order

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By Francis Lee for the Saker blog

''The best-known definition of financialization is that it involves the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economies.'' (1)

In this dungeon – All that glitters *is* gold. Bank of England Gold Vault

The massive shift in the global system of industry and finance which had been based upon the Bretton Woods institutions – viz., the IMF (International

Monetary Fund) the World Bank (previously known as the International Bank for Reconstruction and Development and the International Development Agency) which carried on regardless at the ending of the gold standard in 1971. Both the World Bank and IMF were based in Washington. Additionally, another Bretton Woods Institution – The General Agreement on Tariffs and Trade, was to become the World Trade Organization (WTO) in January 1995.

It was generally understood by all the actors that the objective was for firms to engage in the economy in order to produce goods and services with a view to further investment, growth, and profitability. This was the consensus of the time and *raison d'etre* of capitalism. However, this political unanimity began to change, quite fundamentally.

The massive shift as mentioned above was a step toward delinking the US$ with gold, when the US government guaranteed to exchange US$ for gold at the fixed rate of $35 per ounce. This effectively placed all the world's currencies onto a gold standard backed by the US gold at Fort Knox. Many governments came to accept US$ as gold deposit certificates and chose to hold their international foreign exchange reserves in dollars rather than in gold.

The system worked reasonably well for more than 20 years until it became widely evident that the United States was creating far more dollars to finance its heavy military operations, firstly in Korea and then Indochina, and this combined with the domestic social spending which were part of Johnson's Democratic party enmeshed in the 'Great Society' monetary splurge. What happened next was entirely predictable. Overseas holders of US$ began to take their dollars to the Fed's bank window, but the Fed could not give them anything in return other than US Treasuries which are just a form of paper money! It was a French politician, Valery Giscard D'Estaing, who drew attention to this American 'exorbitant privilege'. Pretty soon all the gold was beginning to fly out of Fort Knox to Europe and the Far East. The US government had to do something in order to stem the outward flow. On August 15, 1971, President Richard Nixon

declared that the US would no longer redeem dollars on demand for gold. The dollar was ultimately nothing other than a piece of high-grade paper with a number and some intricate artwork issued by the US government. The world's currencies were no longer linked to anything of real value and shared expectations that others would accept them in exchange for real goods and services.

It was a fantastic (and lucky) stroke for the Americans to pull this off. But this financial coup seemed like the opening shot in a long goodbye to the existing economic and political order. A strange thing was happening indeed. In the words of the Irish poet, W.B.Yeats, 'All changed, changed utterly. A terrible beauty is born.' From the poem, 'Easter 1916.'

### A Terrible Beauty

Capitalism was clearly morphing into a different animal with a new financial-economic structure which emerged from the old-style capitalist mode; the old order of production and consumption in a traditional capitalist economy which was occasioned by the production of tangible wealth, as opposed extractive or more tangibly extracted 'wealth'. Businesses once focused almost exclusively on producing the goods and services for which they had a competitive advantage, but in the economic conditions of the present time they became likely as much if not focused more on their share price, their dividends regime, and in addition, to their interest rates.

A new class and a new system were clearly emerging, if not actually fully emerged. At the present time a tiny minority of people and corporate interests across the world are accumulating vast wealth and power from rental income not only from housing and land but from a range of other assets natural and created. Rentiers of all kinds are an unparalleled ascendancy, and the neo-liberal state is only too keen to oblige their greed.

The rentier class derive their income from ownership or control of assets that are scarce or artificially made scarce. Most familiar is rental income from land, property, mineral exploitation, or financial investments, but other sources have grown, *pari passu.* These include the income lenders again from debt interest; income from ownership of 'intellectual property' (patents, copyrights, brands, and trademarks); capital gains from investments, 'above normal' company profits (when a firm has a dominant market position that allows it to charge higher prices or dictate terms); income from government subsidies; and income from financial and other intermediaries derived from third party transactions. A political and economic structure began to emerge in the 1980's. Once more quoting Yeats, 'All has changed, changed utterly. A Terrible beauty is born.' That terrible beauty is Neoliberalism. (2)

''Today's corporations have become thoroughly financialized, with some looking more like banks than productive enterprises. This financialization of non-financial corporations has involved the transfer of societies resources from the employees to the share/stock's shareholders. This transfer of wealth has resulted both from changes in the political and economic foundations of the global economy from the rise of a new ideology, which holds that corporations sole aim should be to maximize profitability via increasing returns to shareholders. Both ideas and power relations have to change to create any lasting economic change – and the 1980s was a period of transition of both." (3)

Yes, those old enough of us who can remember the 1980s, a strange period of counter-revolution and – die Zeitgeist – yuppies, private equity, Thatcher and Reagan, The Big Bang, The Eurodollar market, Milton Friedman, and the Chicago School of Economics, 'Greed is Good.' Privatisation was all the rage. Heady stuff, but like all similar periods of ersatz golden ages the recent versions have crashed into the truths of economic realities. Like, you don't get something for nothing, or booms lead to busts, or asset price inflation is **not** the same as growth. In order however … ''to maintain the semblance of vitality, western capitalism has become increasingly dependent on **expanding levels of debt and of**

**the expansion of the level of fictitious capital.** This latter category is made up of financial assets which are only symbols of value, not real values.” (4)

Yes, indeed, company shares-stocks that are traded like goods and services do not in the same way embody value. They are tokens which **represent part ownership of a company and the potential distribution of future profits** in the form of dividends. The paper or electronic certificate itself is not a genuine value that can create more value. Rising share/stock prices are often presented as evidence of a healthy economy, but the amount money a share/stock charges hands says nothing definitive about the value of the company’s assets or about its productive capacity. On the contrary, it is when real capital stagnates that the amount of fictitious capital tends to expand.

The years roughly between the late 1970s to the present economic impasse have been unprecedented since the emerging and increasing instability of the present debacle of the 2020s. Prior to this each successive wave of crises followed a wave of credit bubbles, when the indebtedness of similarly placed group and groups of borrowers increased at a two of three times higher than the interest rate for three, four or more years which produced a series of credit bubbles in addition. These historical blow-outs have in fact become even more intractable and destructive with the passing of time. Something seems seriously amiss with the system’s dysfunctionalities which have become quite visibly failing. The economic situation in a country after several years of bubble-like behaviour resembles that of a young person on a bicycle – the rider needs to maintain the forward momentum of the bicycle, or it will become unstable. During the initial mania, asset prices will decline immediately after they stop increasing – there is no plateau or middle ground. The decline in the prices of some assets leads to a concern that asset prices will decline further and that the financial system will experience distress. The rush to sell these assets becomes self-fulfilling and so precipitous that it resembles a panic. The prices of commodities – houses, buildings, land, shares/stocks bonds – crash to levels that are just 30 or 40

percent of their prices at the peak. Bankruptcies surge, economic activity slows, and unemployment increases.

The features of these manias are never identical and yet there is a similar pattern. The increase in the prices of real estate and commodities or stocks is associated with euphoria; household wealth increases as does spending. There is a sense of 'we have never had it so good.' Then the asset prices peak and then begin to decline. The following implosion of the bubble leads to a decline in the prices of commodities, stocks, and real estate. Some financial crises were preceded by a rapid increase in the indebtedness of one or several groups of borrowers rather than by a rapid increase in the price of an asset or security. These deep-going changes in the world's global economy were accompanied by political ramifications of a very significant order.

The economic shocks of the post-war period gave rise to the political shocks which if anything were more visible than what was apparent in the economies of the advanced world. Since 1945 everything had after the post-war reconstruction been regarded as L'Age Dor, (Golden Age) as the French had called it. This was a period from the early 1950s characterized by high levels of growth, low and falling unemployment, rising level wages and investment, where in the UK we were informed that 'we had never had it so good" as the Conservative government proudly boasted. The Labour party had held the reins of government from 1945-1951. But things began to change during the 1970s, namely that the political/economic pivot changed definitively in the late 70s and early 80s. The Thatcher/Reagan duo grabbed the bull by the horns and established the new order.

This political/economic dispensation was to last from the early 1980s and through to what was to be the supposed blossoming of the Clinton years of growth and enrichment, the apex of the Anglo-American moment. To be sure: *"Pippa's Song." See Below.*

The year's at the spring, And day's at the morn; Morning's at seven; The hill-side's dew-pearl'd; The lark's on the wing; The snail's on the thorn; God's in His heaven –

All's right with the world!

Robert Browning (1812-1889)

Yes, if only it could always be like this. But of course, it seldom or never is, as was to be witnessed in due course.


**Consolidation of the New Order**

**Margaret Thatcher and Ronald Reagan. Dynamic Duo!**

The intellectual theorists of the new order – the Mount Perelin Society – an emergent think-tank and intellectual movement behind the Thatcher-Reagan populism. In a both internally coherent framework and an ideology used to promote the power of the owners of capital in general and finance capital in particular. The work of Hayek, Von Mises, and others constituted a serious intellectual exercise grounded in a particular set of values (including Milton Friedman albeit a junior member) namely, a commitment to human freedom, defined by control over one's property. The fact that this justified for shrinking the size of the state, removing capital controls, and reducing taxes is what led several prominent international financiers (George Soros comes to mind for some reason) to cover a large portion of the costs for the first meeting. So, the party (in terms of both political activity and organization) was calling nearly all the shots.

Another significant event has been the intellectual collapse of Labour and Social-Democratic parties in Europe and possibly even included the left-wing of the US Democratic Party and Bernie Sanders. These were clearly the most significant political events in both Europe and North America during the 1980s. We can list them – all late converts to the neo-liberal paradigm – in France (PS Party Socialist France) (Germany SPD) (Greece PASOK) (Spain PODEMOS) (UK Labour Party) the list goes on. Moreover, having given up on any notion of socialism and equality, these ex-parties metamorphosed into centre-right outfits indistinguishable from the militant conservatives. The leaders of these counterrevolutions were the ineffable bought duo – Bill Clinton and Tony Blair.

The privatization programme was to sweep all before it including on a massive scale the expropriation of public land with little analysis or oversight. The programme of what was once the public sector and which had included, the National Health Service, Education, Transport, Road and Rail, Electricity, Water … was a policy based upon ideological rather than practical considerations; moreover, the list was extensive. Perhaps an example of this policy was education, particularly higher education which was provided and subsidized by

educational opportunities in the elite universities. As a British national I was subsidized by generous government grant in 1979/82. I then finished my higher education as a post-graduate in 1986 – again free of charge. It is of course inconceivable that I would have been able to do this today.

The economic system – that is to say the present financialized system prevalent in the Western world – seems to be reaching its crisis point. Quack remedies for the ailing western economic structures, include Central Bank Digital Currencies, CBDCs, and/or the black hole of ever-increasing debt, which apparently will be overcome by *issuing more debt* (sic) and which are touted as a 'solution' to an intensifying structural problem, but which merely intensify the crisis.

According to Marx: ''In France and England, the bourgeoisie had conquered political power. Thenceforth, the class-struggle, practically as well as theoretically, took on more and more outspoken and threatening forms. It sounded the death-knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient, or inexpedient, politically dangerous, or not. In place of disinterested inquirers, **there were prize fighters;** in place of genuine scientific research, the bad conscience and evil intent of the apologetic." (Capital, Volume 1, Afterword to the Second German Edition – London 1873).

The present deep economic crisis is, at bottom, a class issue. The residual elements of the old aristocracy survived the initial assault of the political economists of the 17/18/19$^{th}$ centuries who included Adam Smith (1723-1790), David Ricardo (1772-1823), John Stuart Mill (1806-1873), Karl Marx (1818-1883)/(Friedrich Engels (1820-1895). The ruling class saw the above group as being an assemblage of dangerous radicals who posed an alarming threat to the social and political order. Thus, from their perspective the powers-that-be saw fit to enlist a group of academics called the 'marginalists' in 1870. These were the counter-revolutionary mathematicians and included Leon Walras (Frenchman) William Stanley Jevons (Englishman) and Carl Menger (German). Whether or

not the repudiation of classical political economy achieved by this counter-group was sustainable is a moot point (see above). But suffice it to say these gentlemen were the ideological foot-soldiers, or, in Marx's words 'hired Prize Fighters' for the rentier classes. Unfortunately, their frozen economic theories survived to the present day and continue to dominate school and university curricula and represent the timeless (and tedious) axioms of micro-economics.

I'll leave the last word to Michael Hudson.

''Real estate, stocks and bonds constitute the bulk of wealth in today's economies, because most wealth is obtained by rent-seeking – land rent, monopoly rent, and financial charges for special privileges – and even more by capitalizing *rentier* revenues into financialized assets, all supported by tax favoritism. In contrast to industrial capitalism's drive to minimize rentier charges to create a lower cost economy with less overhead costs, finance capitalism increases this burden. Regardless of how financiers and billionaire *rentier* make their fortunes, this rise in *rentier* wealth is counted as an *addition* to GDP, subtracted as an exploitive transfer payment …Much as the land and England's Commons were privatized in the Enclosure movements from 15$^{th}$ to 19$^{th}$ centuries by a combination of force, legal stealth and corruption, today's post-1980 privatization wave aims at appropriating basic public infrastructure to create opportunities for charging monopoly rent, along with bank lending to privatizers. Privatization and financialization tend to go together – at the economies expense." (5)

*Italy: La Lotta Continua! (Ongoing Struggle)*

*NOTES:*

(1) *Stolen: How to save the world from financialization* by Grace Blakeley. (2) *The Corruption of Capitalism* – Guy Standing – (*Ibid. p. 3*)

(3) Grace Blakeley – (*Ibid. p.62*)

(4) *Creative Destruction* – Phillip Mullan – (*p.22*)

(5) *The Destiny of Civilization* – Michael Hudson – (p.25)

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